Kettering Borough Council (KBC) welcomes the opportunity to make a submission to the Housing, Communities and Local Government Committee on the above inquiry. We have provided responses to each of the four individual questions in the inquiry, but would also like to make the following general comments.

**General Comments**

- The current system is very complicated and it is not easy to see how all the elements of funding fit together – something which the new system needs to address.

- A great deal of difficulty is created for authorities from late and ad hoc changes, particularly to business rates or late announcements around funding decisions.

- An increasing share of funding has been distributed through incentives (New Homes Bonus, business rates). It is therefore disappointing that there has been a reduction in the New Homes Bonus incentive and the potential changes to the Business Rates Retention scheme could see significant reductions in the incentive for Growth retained locally.

- In recent years, the multi-year settlement has been helpful to those authorities who accepted it because it provided certainty around government funding and helped assist with medium term financial planning, it is to be hoped that this will be a key feature of any future funding system.

- We would like to see a funding system where there is a clear design of the architecture of the overall system and how the various elements fit together. This should include the funding (Settlement Funding Assessment, SFA) and the BRRS. We would also expect a commitment from MHCLG to be transparent about the assumptions within the system.

**What lessons can be learned from past changes to local government funding in England, the current financial situation of councils, and how this has affected their ability to deliver services.**

**Response**

Successive governments have added new funding “modules” to the existing funding system: the four-block model was laid over the existing Standard Spending Assessments; on top of this was added the Business Rate Retention System (BRRS). Complexity has been added to complexity. Ideally the Fair Funding Review (FFR) will address these issues and replace it with something where it is possible to
see how everything has been calculated, and how everything fits together. Authorities need to be able to see how their allocations have been calculated, and to replicate these calculations, providing the wiring to these calculations is really important to the sector as a whole.

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The overall perception is of a system that is subject to very tight central control, leaving local authorities only limited opportunity to raise additional revenue locally. The return of non-domestic rating income to local authorities was a welcome move, as too are the proposed changes to the level of rates retention. However what is less welcome is the proposal for a full reset as growth delivered in the first five or six years will be effectively removed as a result of having a more recent baseline and rather than see the benefits of growth they are likely to find they will have a higher Business Rate Baseline, from which growth will be measured from 2020/21. This results in authorities who have delivered growth not receiving the financial benefits for delivering growth. A similar situation is also true of New Homes Bonus and it is those authorities that have delivered most that stand to lose most – the reduction in the reward is very damaging to the “incentive effect” and undermines trust in the way the system is managed.

Annual Council Tax increases continue to be capped by Government unless the local authority is prepared to hold a referendum to support an increase above the cap, the cost of this is likely to be significant and can often be prohibitive.

**The efficiency, fitness for purpose and sustainability of the current system for funding local government, how it could be improved, including options for widening the available sources of funding, and what lessons can be learned from other jurisdictions.**

**Response**

Currently, there is a “perfect storm” of uncertainty for Councils in 2020/21 with changes to the Fair Funding Review (FFR), Business Rates Retention Scheme and potentially to New Homes Bonus. The impact of the financial challenges faced by local authorities in delivering services has been extensively reported. The nature of the reductions was exacerbated in the early years because of the lack of any long term indication of funding levels, which meant that service reduction was stepped
rather than being subject to a longer term managed plan which may have given authorities more time to make better informed decisions. Meaningful Medium Term Financial Planning must be a key feature going forward and this requires the Government to provide a clear basis for which authorities could calculate their levels of funding.

The current system is extremely complex which masks transparency, relies to some extent on increasingly outdated data which fails to take account of changing circumstances. It is also subject to a high degree of central control.

We consider that the system could be improved by the following:

- Having less Central Government control by allowing local authorities greater freedom in raising revenue.
- Allowing local authorities greater discretion over Council Tax levels and discounts.
- Reverting to their original intention of 100% business rates retention.
- Simplifying the measures for assessing need.

**How the funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.**

**Response**

The uncertainty about funding in 2020/21 is unprecedented, and there is, as a result, considerable nervousness about forecasting funding in 2020/21 and beyond. To help authorities deal with this uncertainty, it would help the Sector if the government announces before the summer how a damping or transitional regime would work in 2020/21. Such a regime would need to cover the widest range of funding streams, including business rates growth and New Homes Bonus. Early clarity about damping would be an enormous help.

We believe that meeting the forecast funding needs of local authorities should not be addressed in isolation but as a part of a very much wider review of the nature of public service provision. This would obviously be beyond the scope of the present inquiry but we have set out below the steps we feel would be necessary;

- Decide how public service provision is to be organised.
- Decide how this is to be split between central and local organisations.
- Determine the structure and role of local government within this.
- Assess the resource requirements to fund this.
- Determine the nature of the funding to support this.
- Identify any further areas where local government could have discretionary powers to raise further revenue.

The approach the Government should take to local government funding as part of the 2019 Spending Review, what key features of that settlement should be, and what the potential merits are of new or alternative approaches to the provision of funding within the review.

Response

Unfortunately, there are no measures to show the rate at which authorities are making savings (whether cutting services or making efficiencies) or the success at which authorities are having in implementing these savings.

An increasing share of funding has been distributed through incentives (New Homes Bonus, business rates). It is therefore disappointing that there has been a reduction in the New Homes Bonus incentive and the potential changes to the Business Rates Retention scheme could see significant reductions in the incentive for Business Rates Growth.

Authorities will also be put under pressure with changes in the distribution of funding, either from the Baseline Reset or the FFR.

There needs to be a shared objective of providing adequate and guaranteed funding over a long time period in order to continue to provide services to the local community.

Some authorities are experiencing large spending pressures and will also be put under pressure with changes in the distribution of funding, either from the Baseline Reset or the FFR. The increasing expenditure pressures and the potential significant reduction in funding levels that could result from a full baseline reset for Business Rates continues to be of a concern for many authorities.

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